



Economic Outlook

Herron Todd White
South-East Queensland
Property Overview

Dr Jonathan Kearns
Chief Economist

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Nothing stays the same

United States' policy and economic path introduces new uncertainty



Markets rallied on US election

- Markets took a near-term positive interpretation on the US election
- But the longer-term economic implications are less rosy



Sticky inflation, economic resilience

- Inflation is slowing globally
- Many countries are having 'no landing' or 'soft landings'
- But services inflation remains sticky



Investing risks remain

- Unclear what policies Trump will implement
- Highly uncertain how other countries will respond
- Inflation remains a problem



Have asset prices over-reacted?

- US election implies higher inflation, interest rates and ultimately slower economic growth
- These are not good for asset prices in the long run

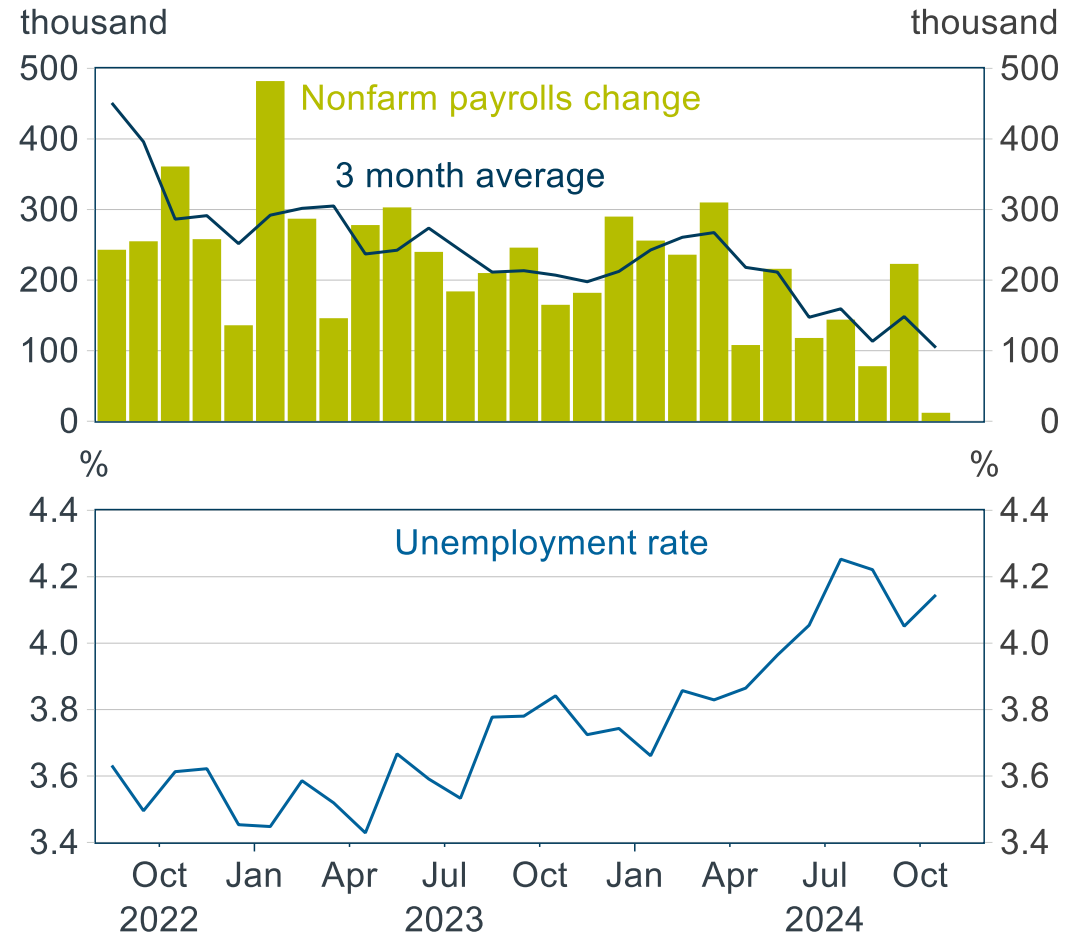
US economy has been resilient but is slowing ...

US GDP growth



Note: Atlanta Fed GDP now forecast based on available data for the quarter
Sources: Challenger, Macrobond, BEA

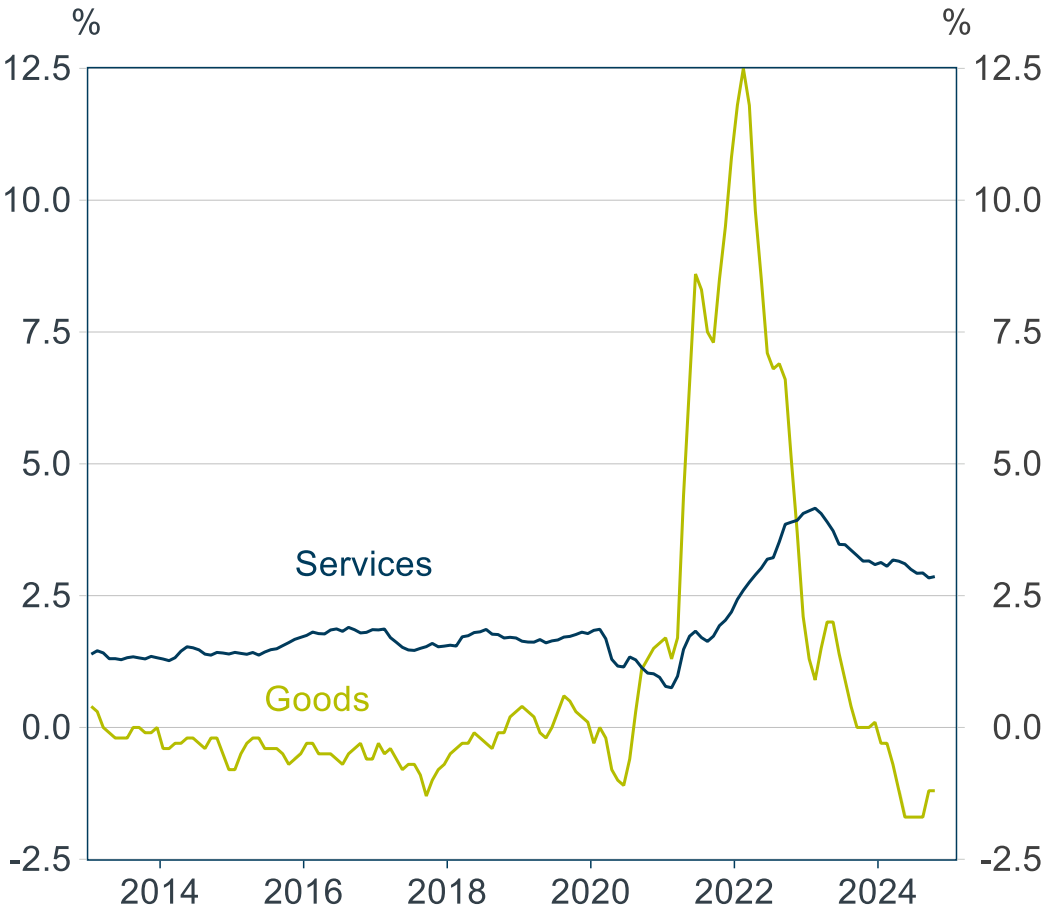
US labour market



Sources: Challenger, Macrobond, BLS

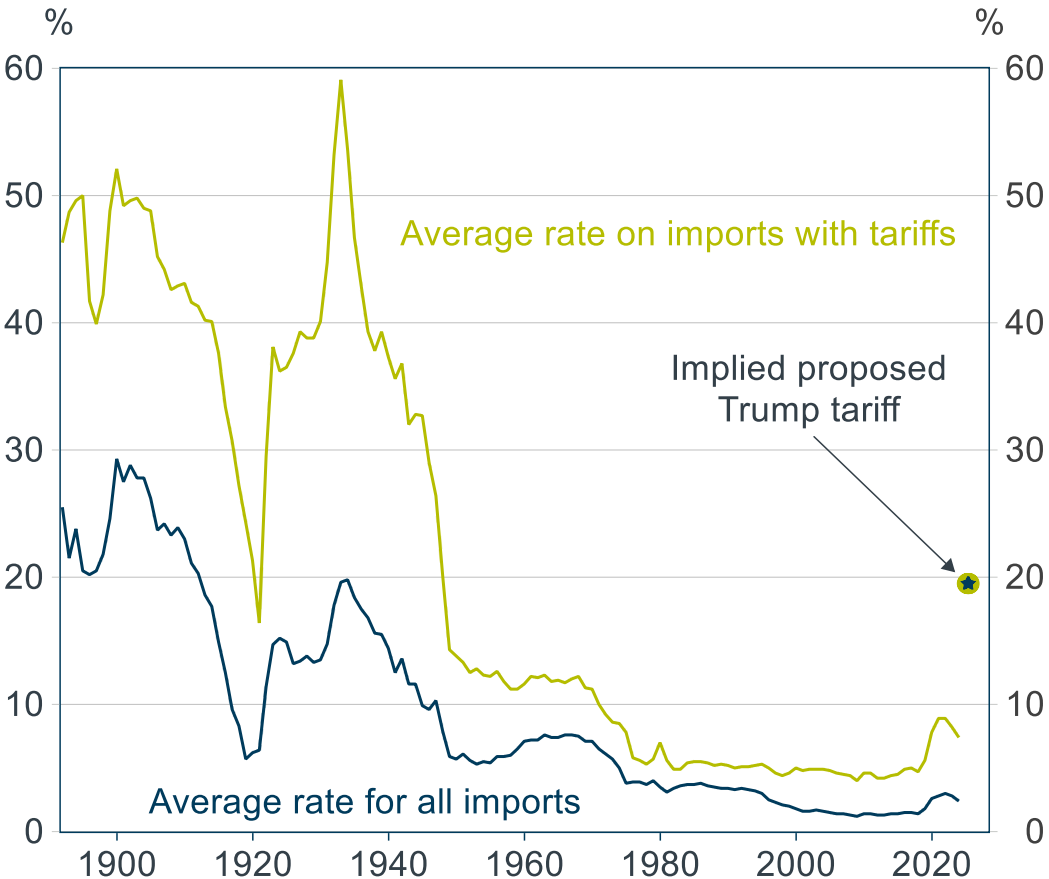
Inflation has slowed but there are new risks ...

US core CPI inflation



Note: Core inflation excludes food & energy, core services excludes energy
Sources: Challenger, Macrobond, Bloomberg

US average tariff rates

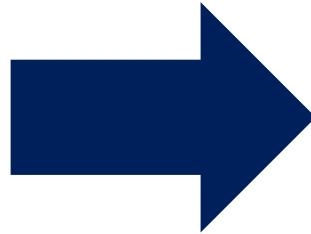


Note: ratio of duties collected to total imports and dutiable imports; implied Trump tariff is calculated as 60% on imports from China and 15% (10-20%) on all other imports
Sources: Challenger, Macrobond, USITC

Trump 2.0: market enthusiasm but huge uncertainty ...

Trump policies:

- Tax cuts for higher income earners, on tips, auto loan interest deduction
- Tariffs – 60% on Chinese imports, 20% on imports from others
- Extend fossil fuel usage
- Curtail migration



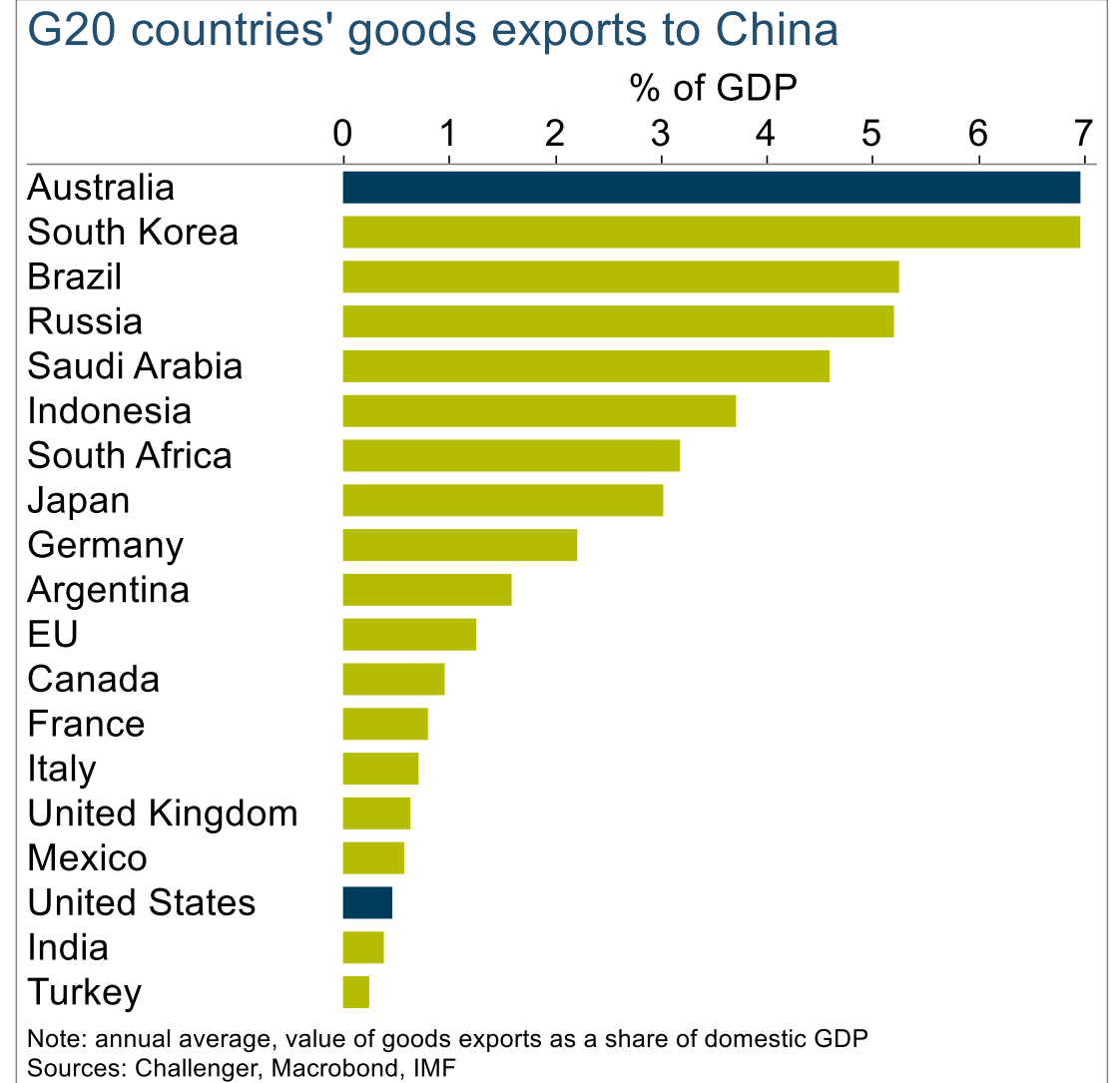
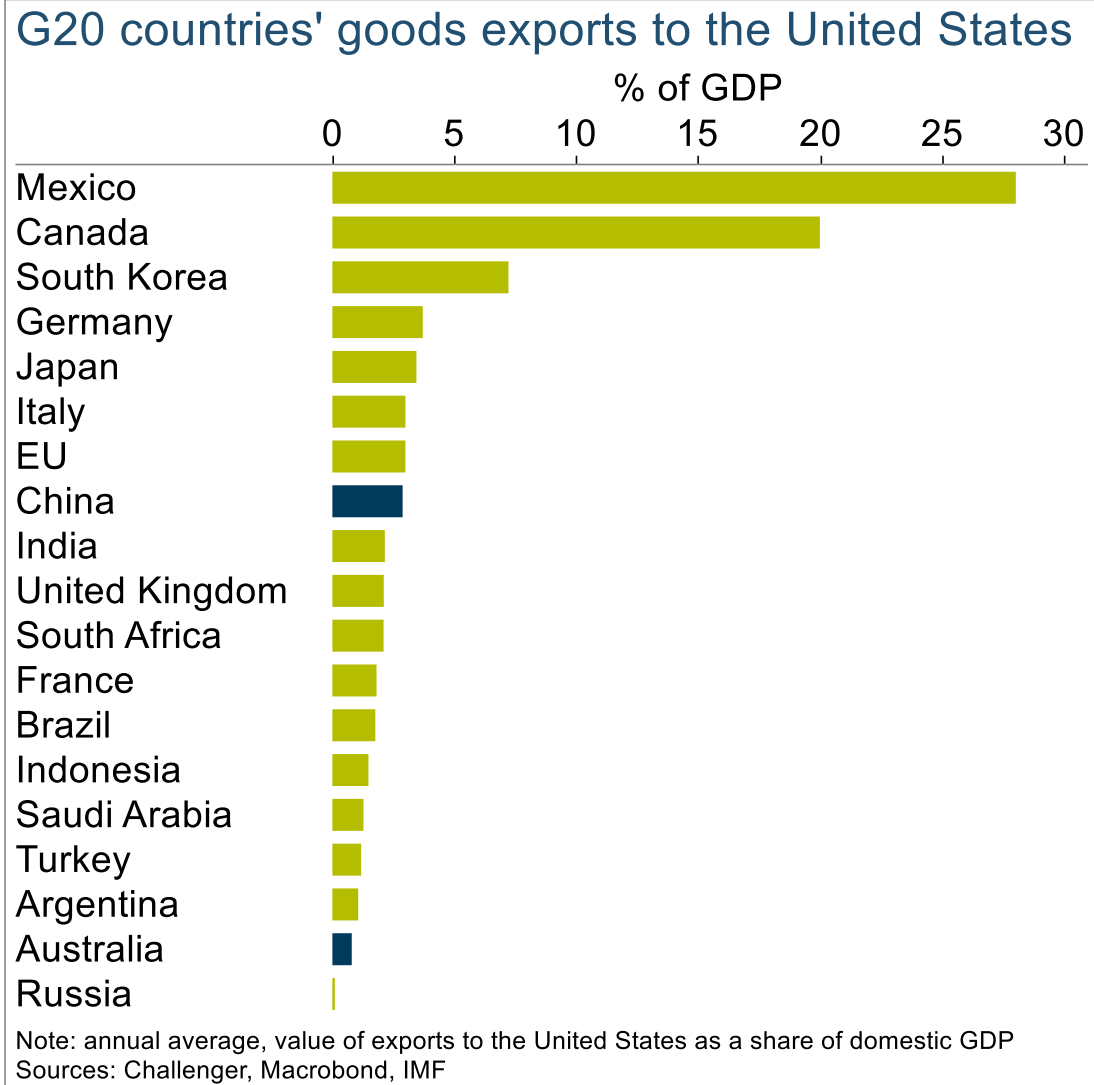
Probable US economic implications:

- Higher near-term growth and inflation
- Higher long-term rates, higher USD
- Higher trough of Fed Funds rate
- Lower potential growth

Possible global economic implications:

- Lower growth, particularly in China
- Lower commodity prices
- Higher (or lower?) inflation
- Fragmentation of trade

Australia will be hit in the fall out from a trade war...



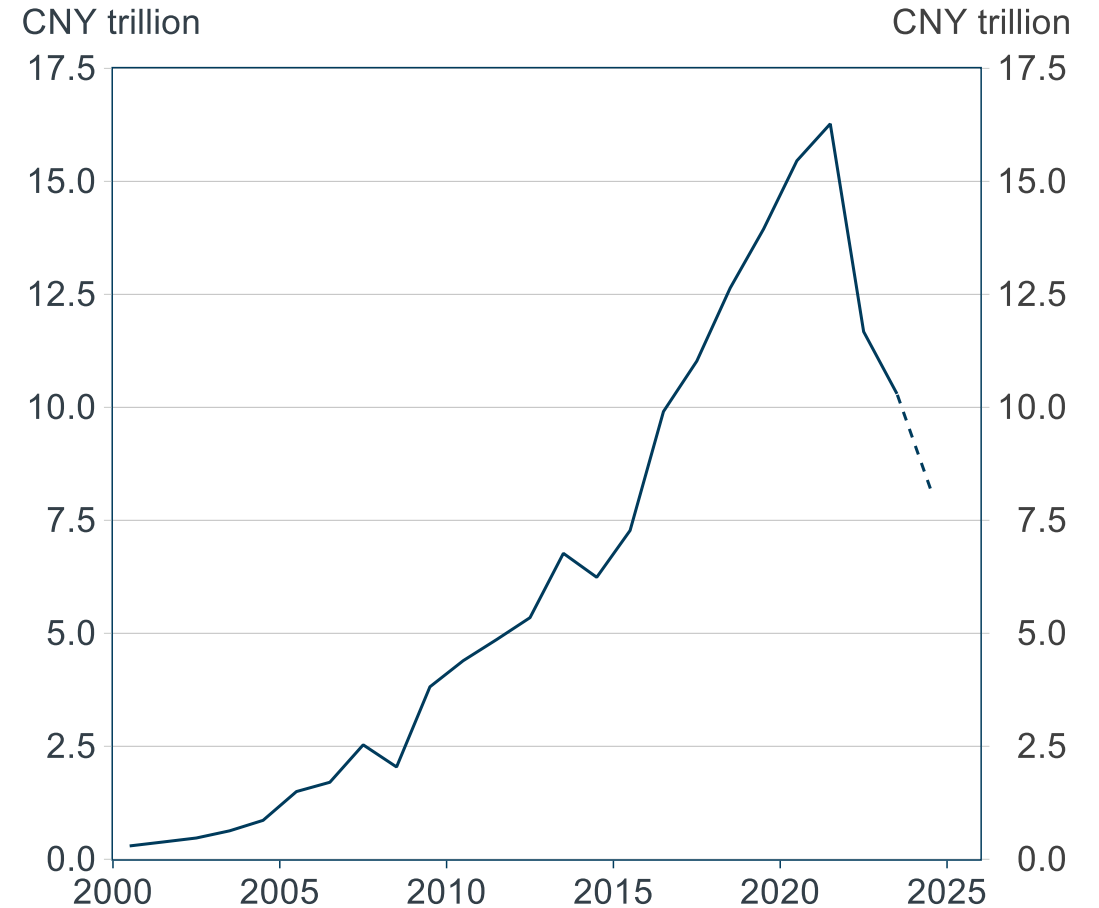
Property is a big drag on the Chinese economy ...

China dwelling price growth



Note: first principal component of 70 cities prices normalised to median
Sources: Challenger, Macrobond, NBS

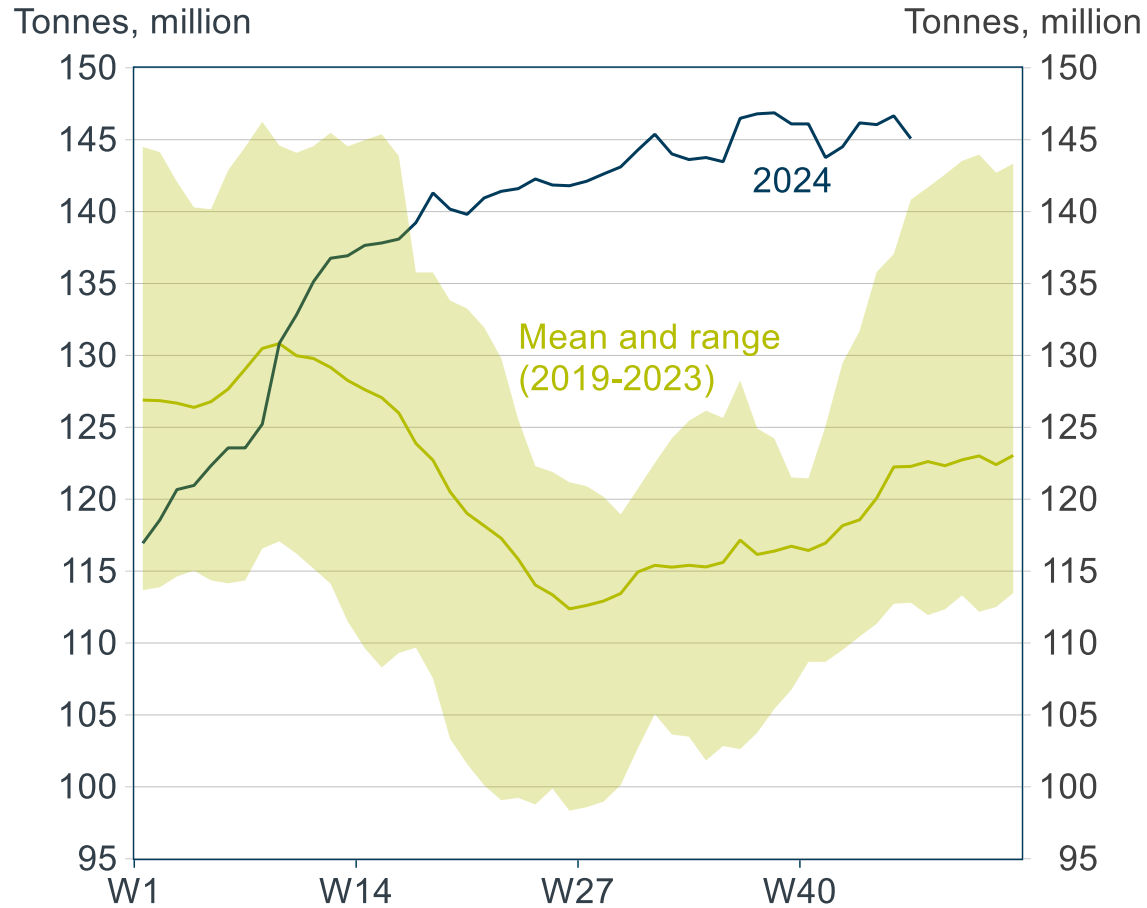
China sales of residential buildings



Note: 2024 forecast based on trajectory of sales in year to date
Sources: Challenger, Macrobond, Bloomberg, NBS

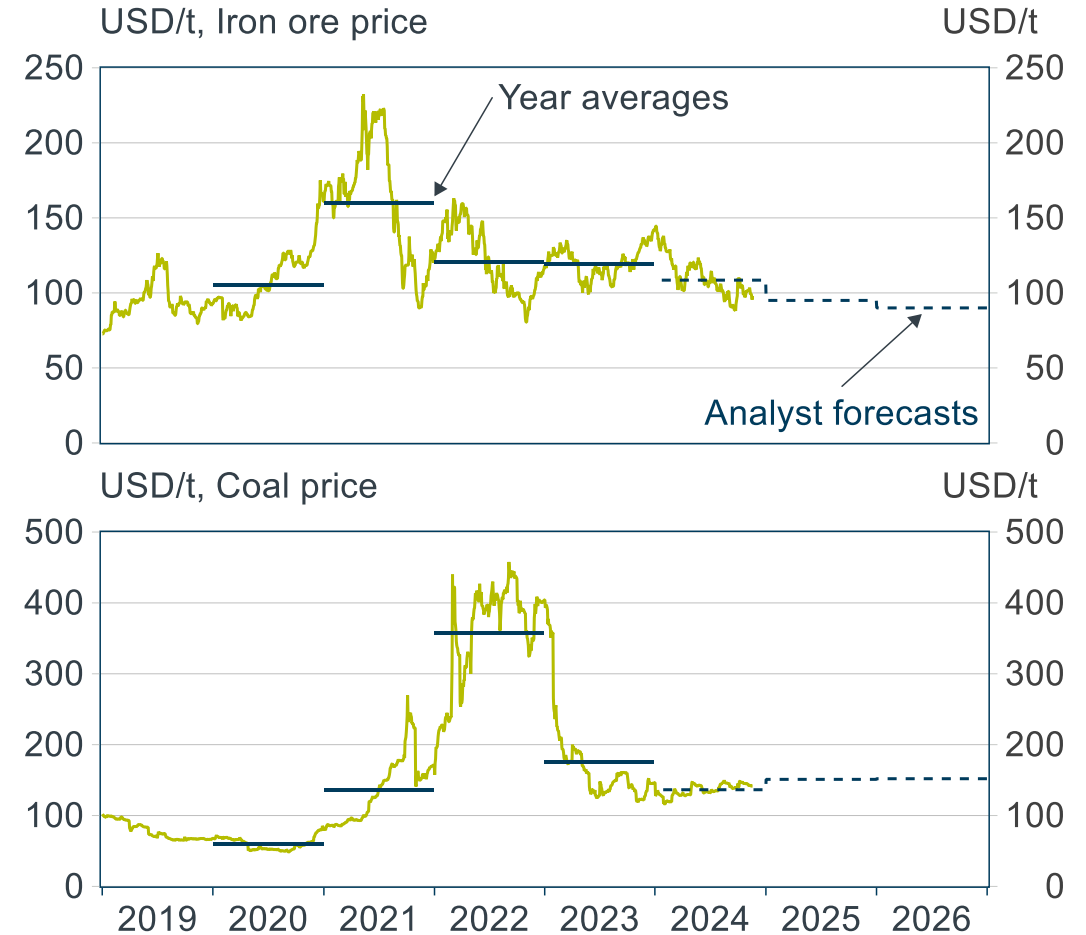
China's slowing reduces commodity demand ...

China iron ore port inventory



Note: mean and range (min to max) for 2019-2023
Sources: Challenger, Macrobond, Lange Steel Info Centre

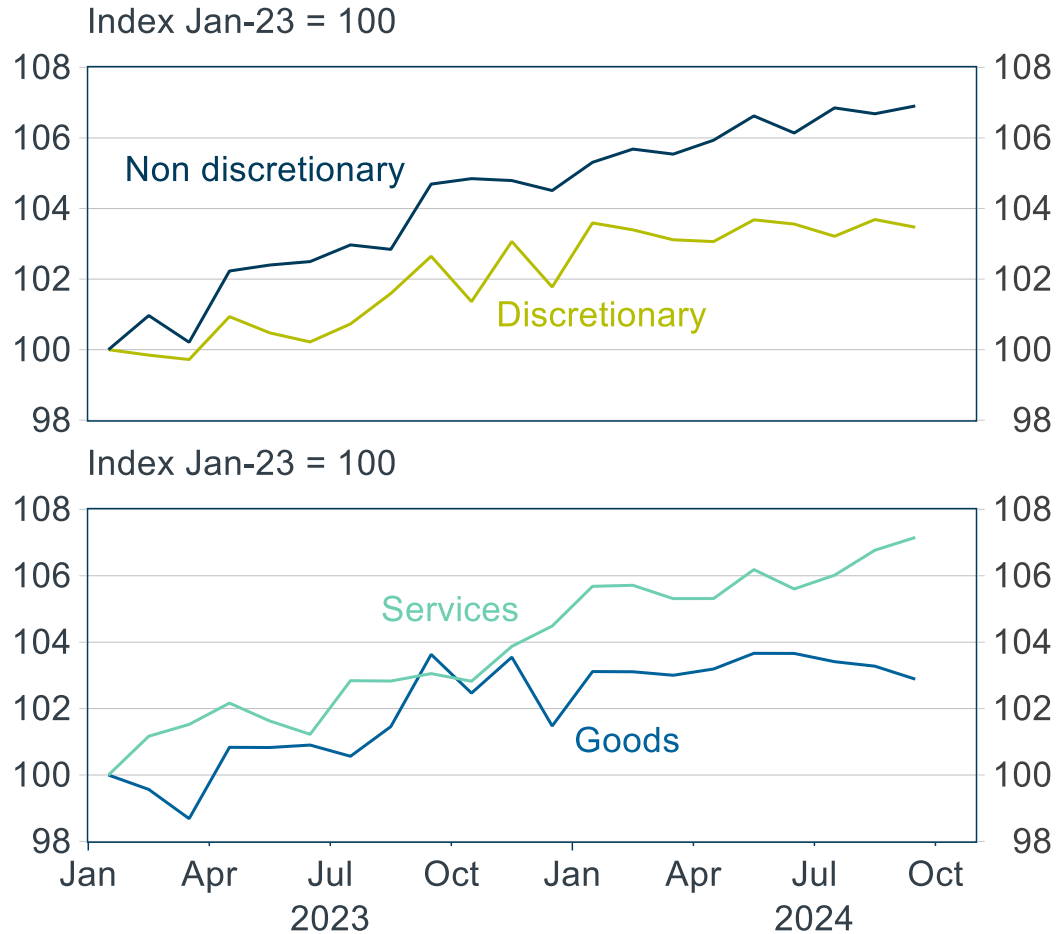
Bulk commodity prices



Sources: Challenger, Macrobond, Bloomberg, IMF

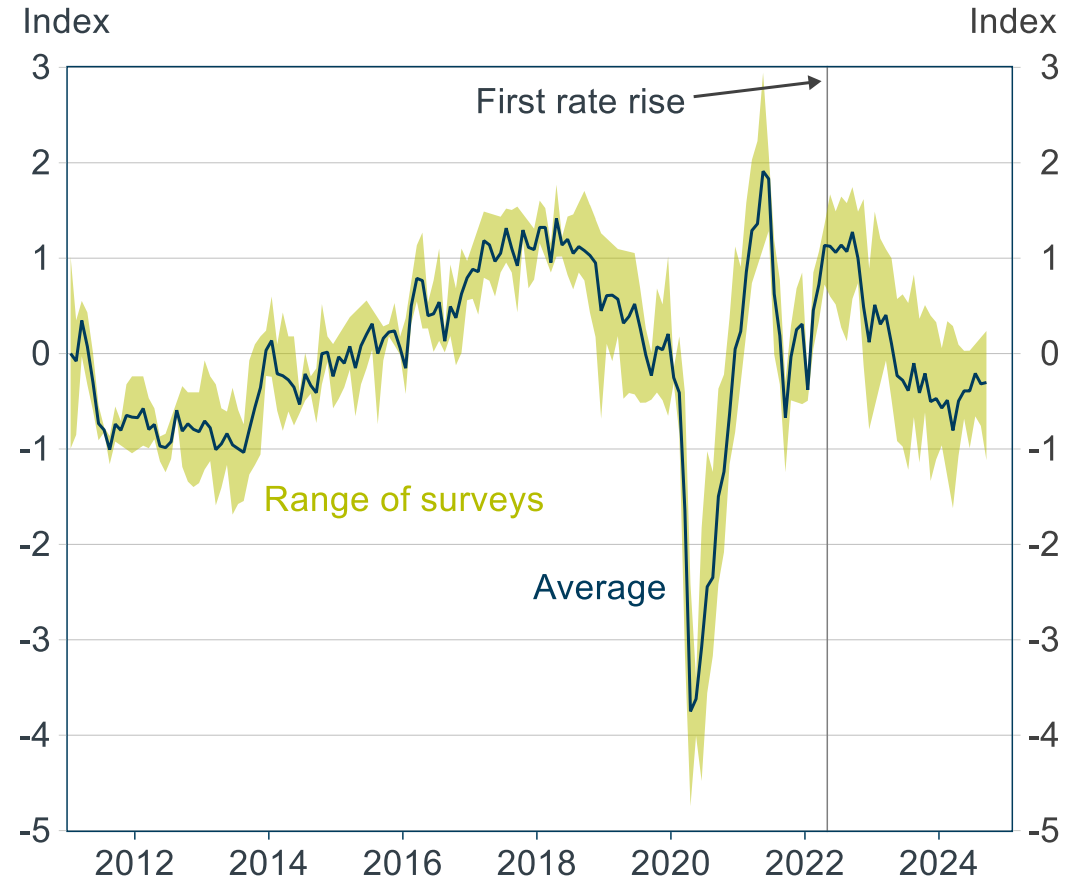
The Australian economy has also slowed ...

Monthly household spending indicator



Sources: Challenger, Macrobond, ABS

Surveys of current business conditions

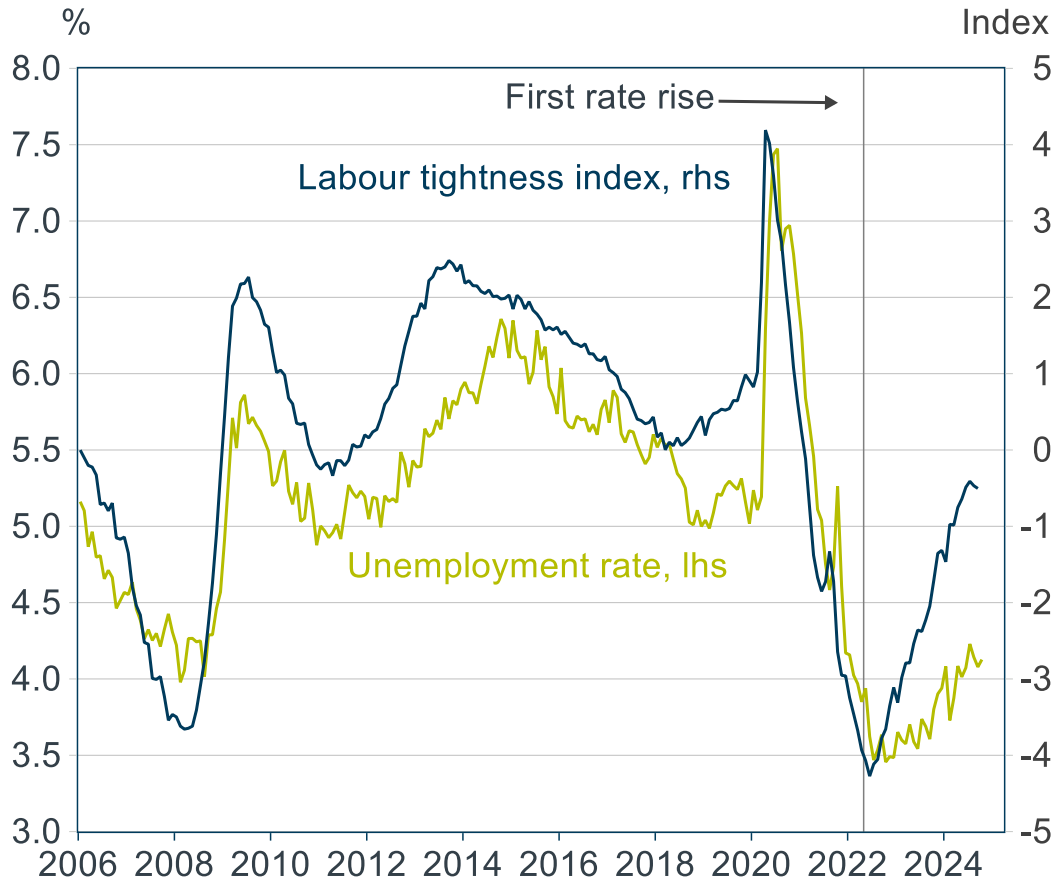


Note: Combines: ACCI current conditions, NAB current conditions, Roy Morgan conditions from one year ago; zero mean, unitary standard deviation

Sources: Challenger, Macrobond, ACCI, NAB, Roy Morgan

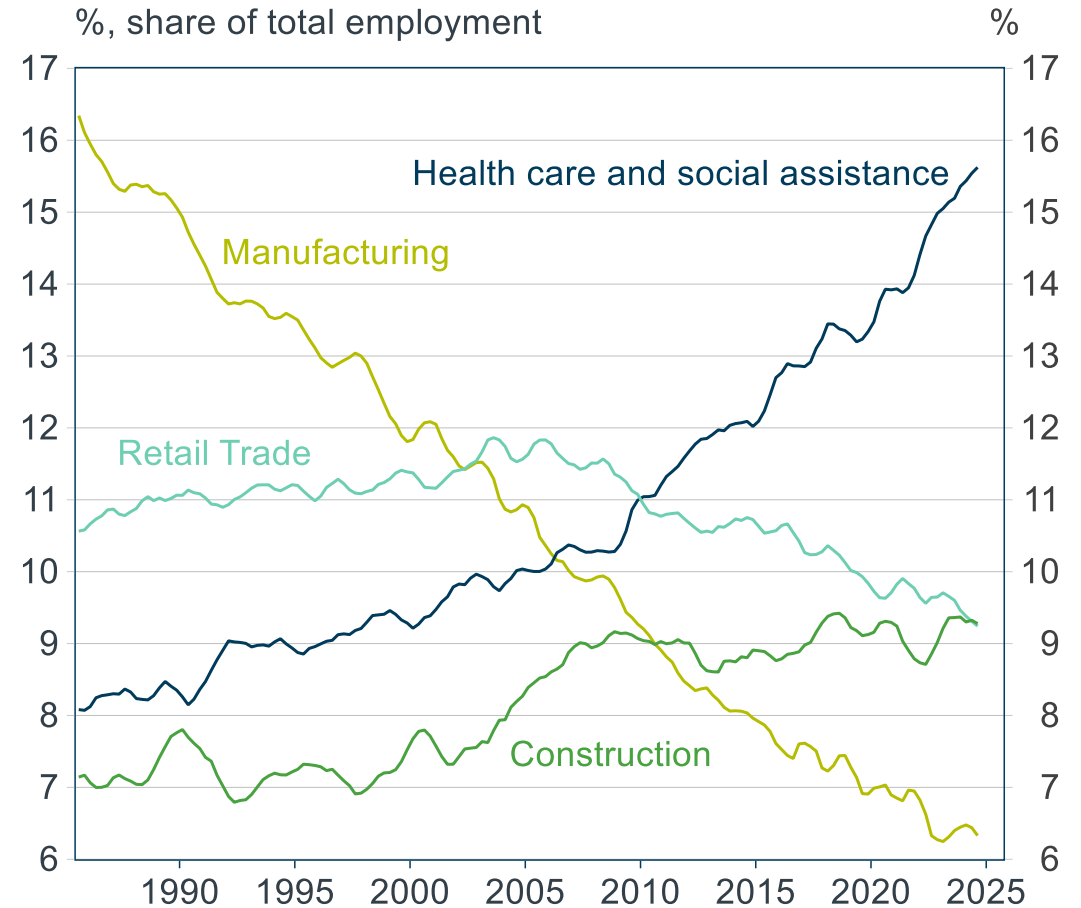
But the labour market has been very resilient ...

Unemployment rate and labour tightness index



Note: Index is the (inverted) first principal component of Seek, ANZ and JSA ads, ABS Vacancies (all as share of labour force), and NAB labour availability survey
Sources: Challenger, Macrobond, ABS, ANZ, JSA, NAB, Seek

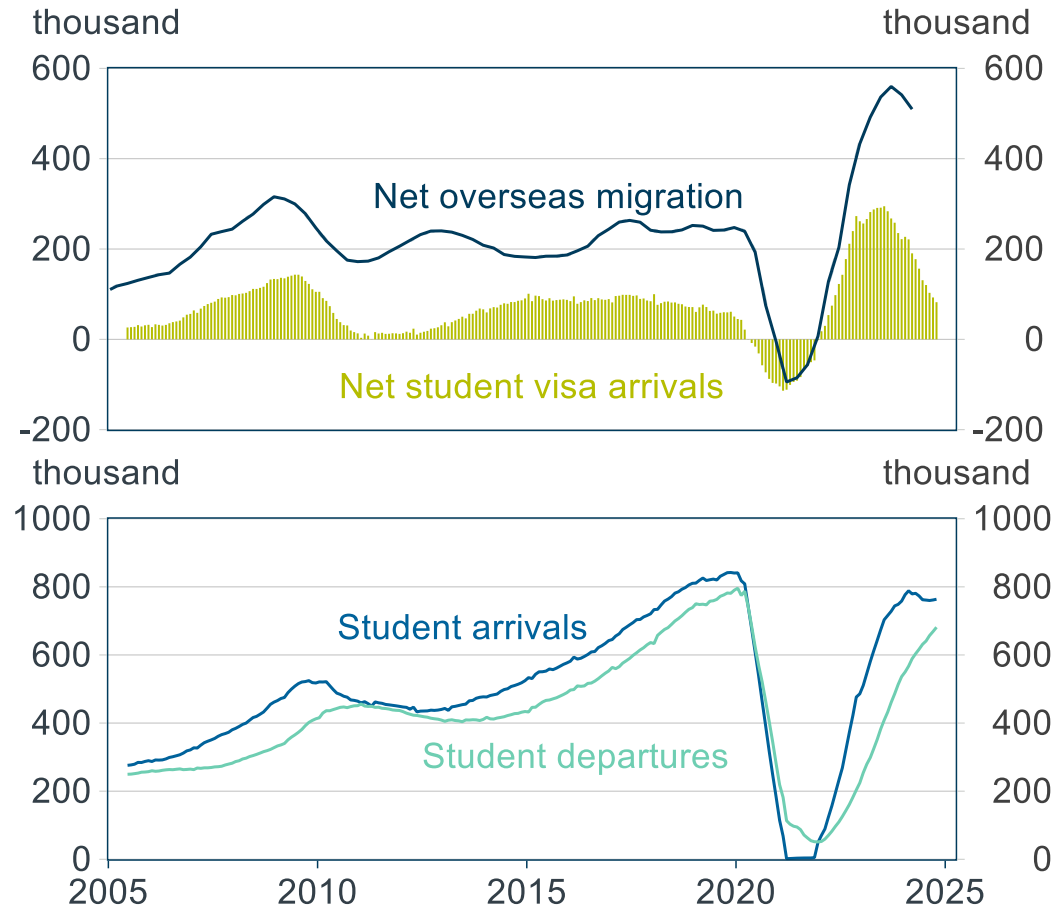
Industry employment shares



Note: four quarter average
Sources: Challenger, Macrobond, ABS

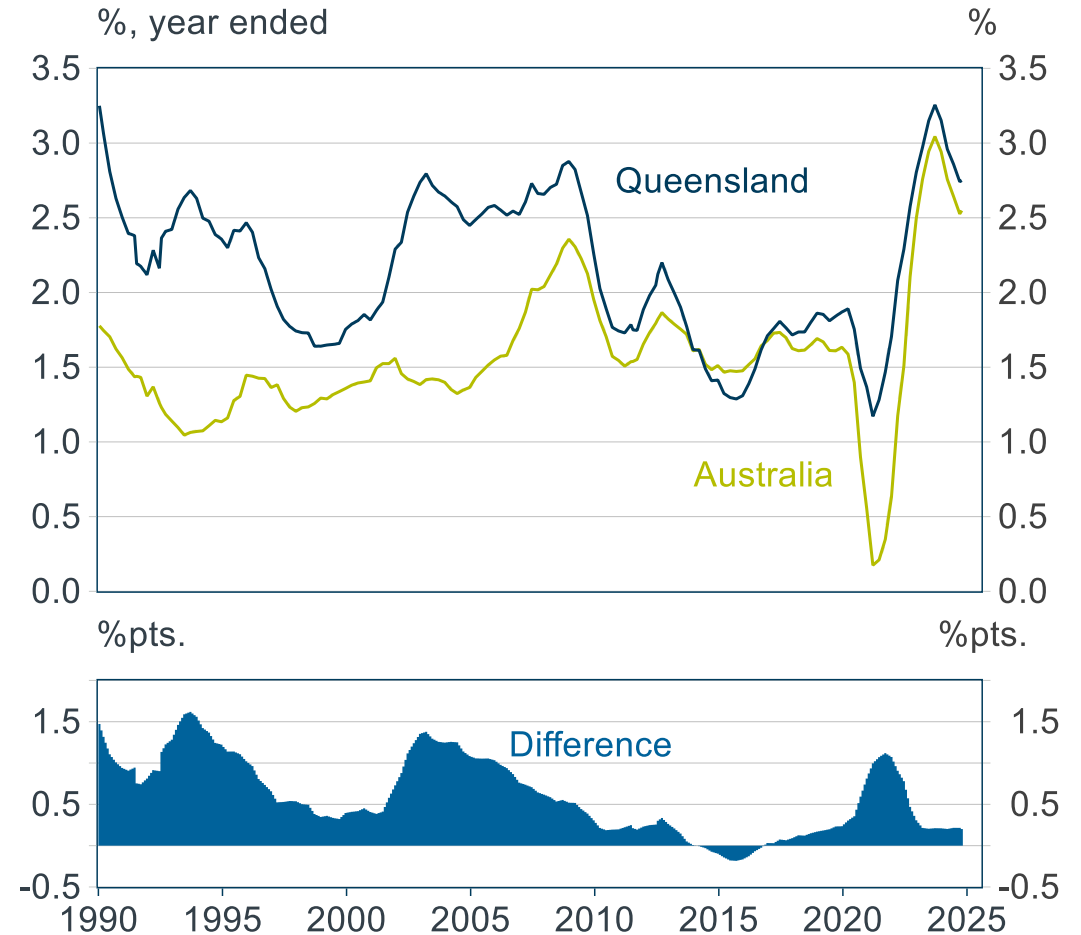
Population growth is slowing, but not why you think ...

Student arrivals and net overseas migration



Note: rolling annual totals
Sources: Challenger, Macrobond, ABS

Growth of population aged 15+



Sources: Challenger, Macrobond, ABS

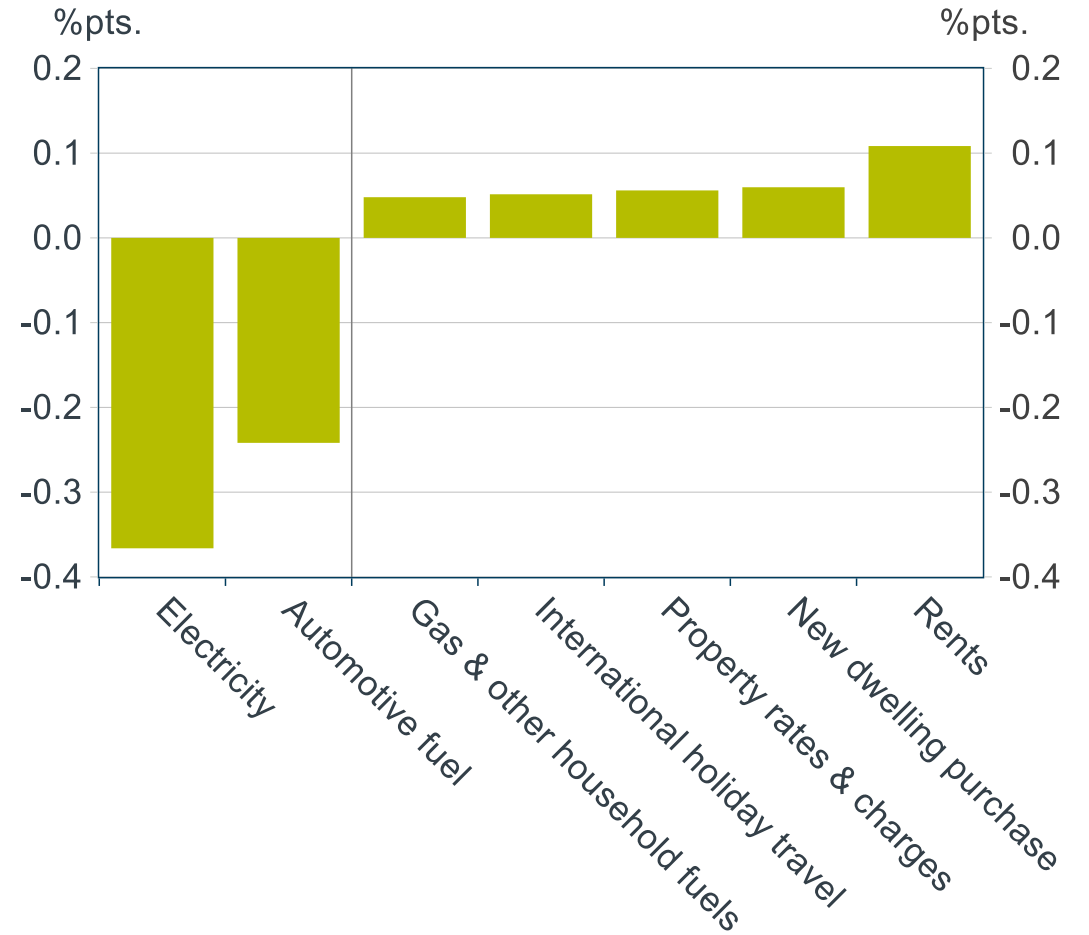
Inflation is slowing, but not as much as you might think ...

Inflation



Sources: Challenger, Macrobond, ABS

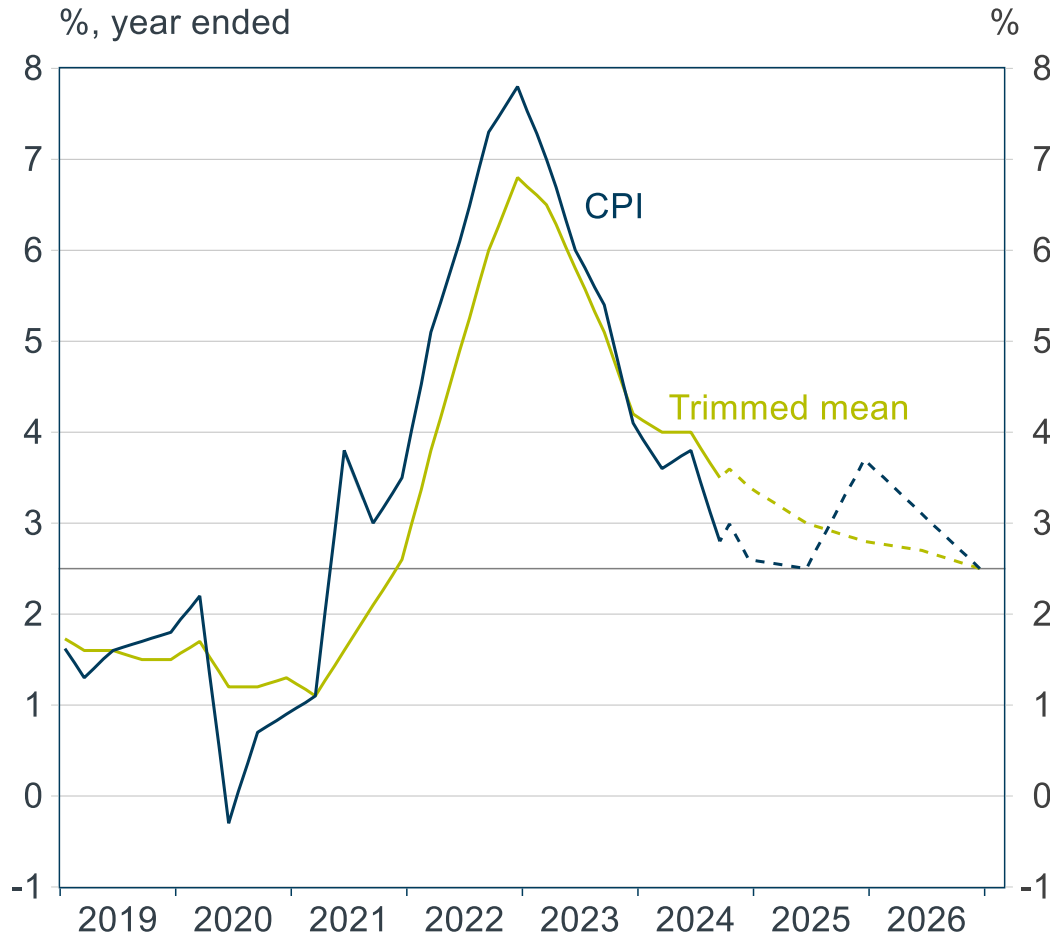
Major contributors to quarterly inflation



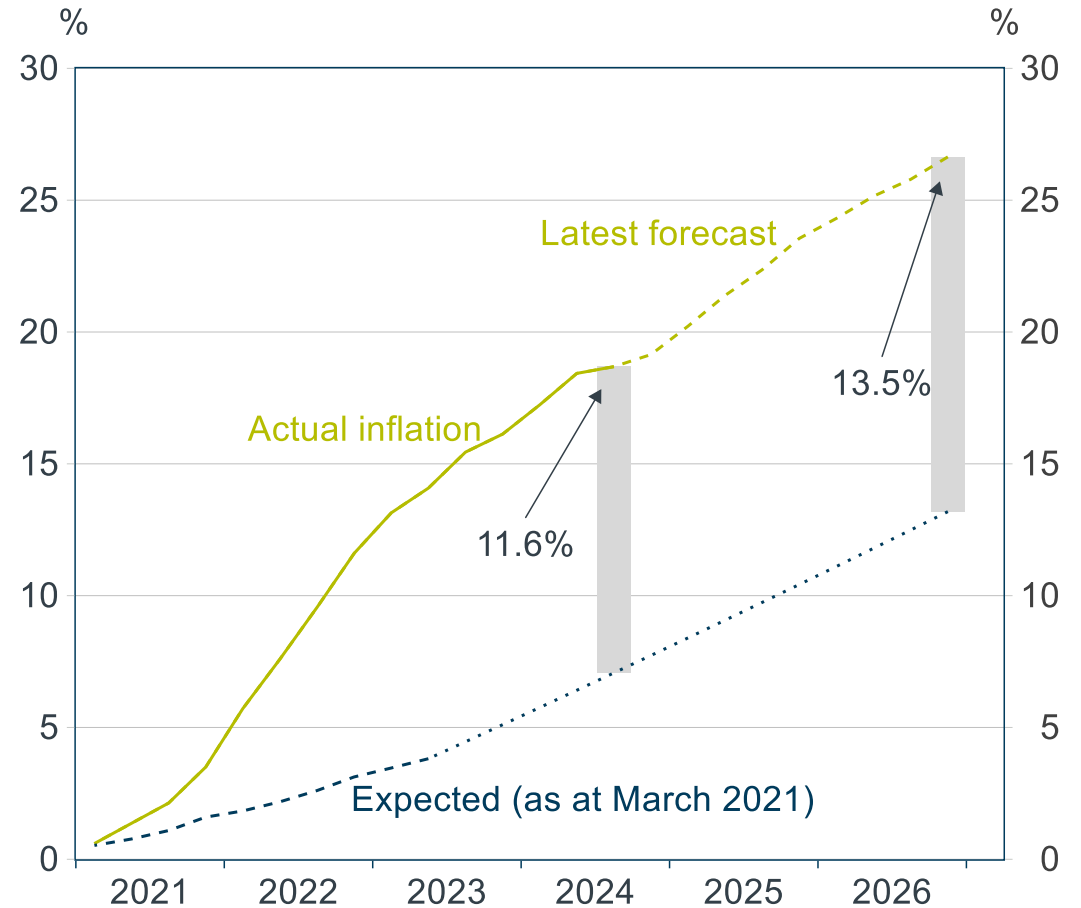
Sources: Challenger, Macrobond, ABS

And the impact of inflation is long lasting ...

RBA inflation forecasts

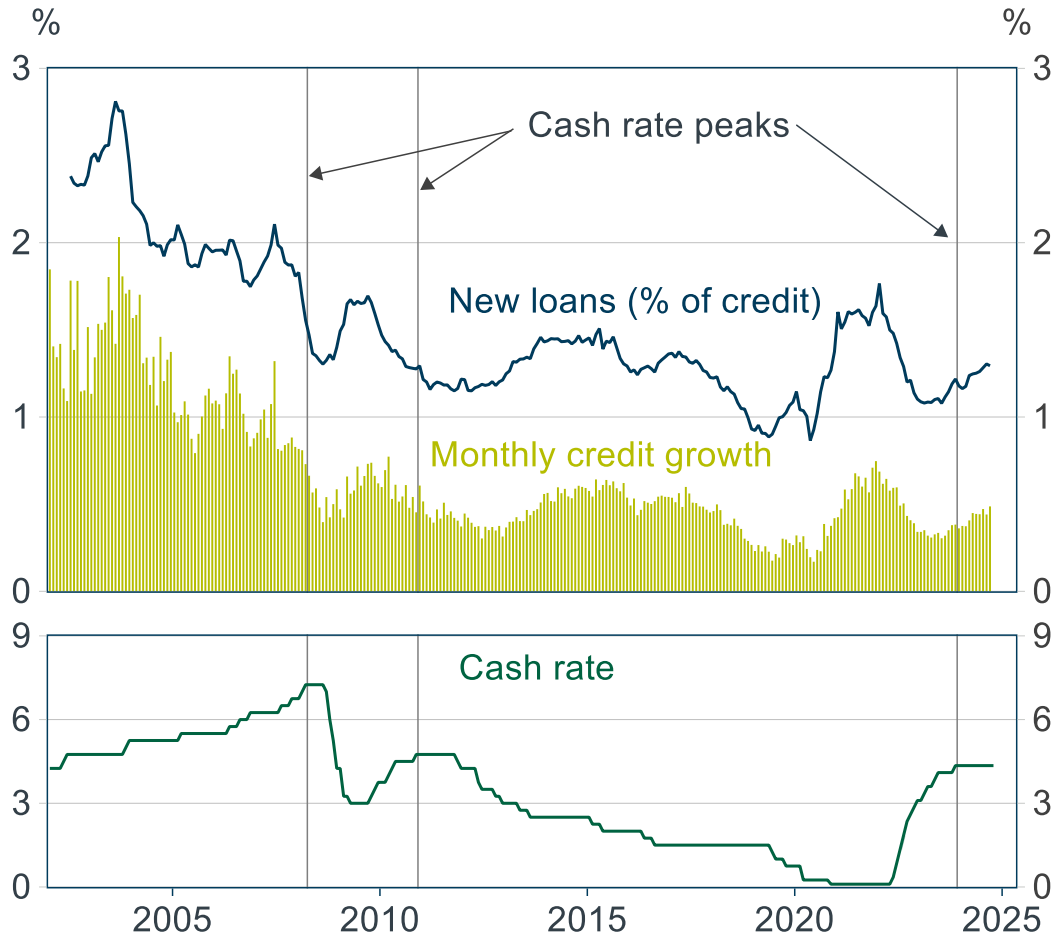


Cumulative Australian inflation



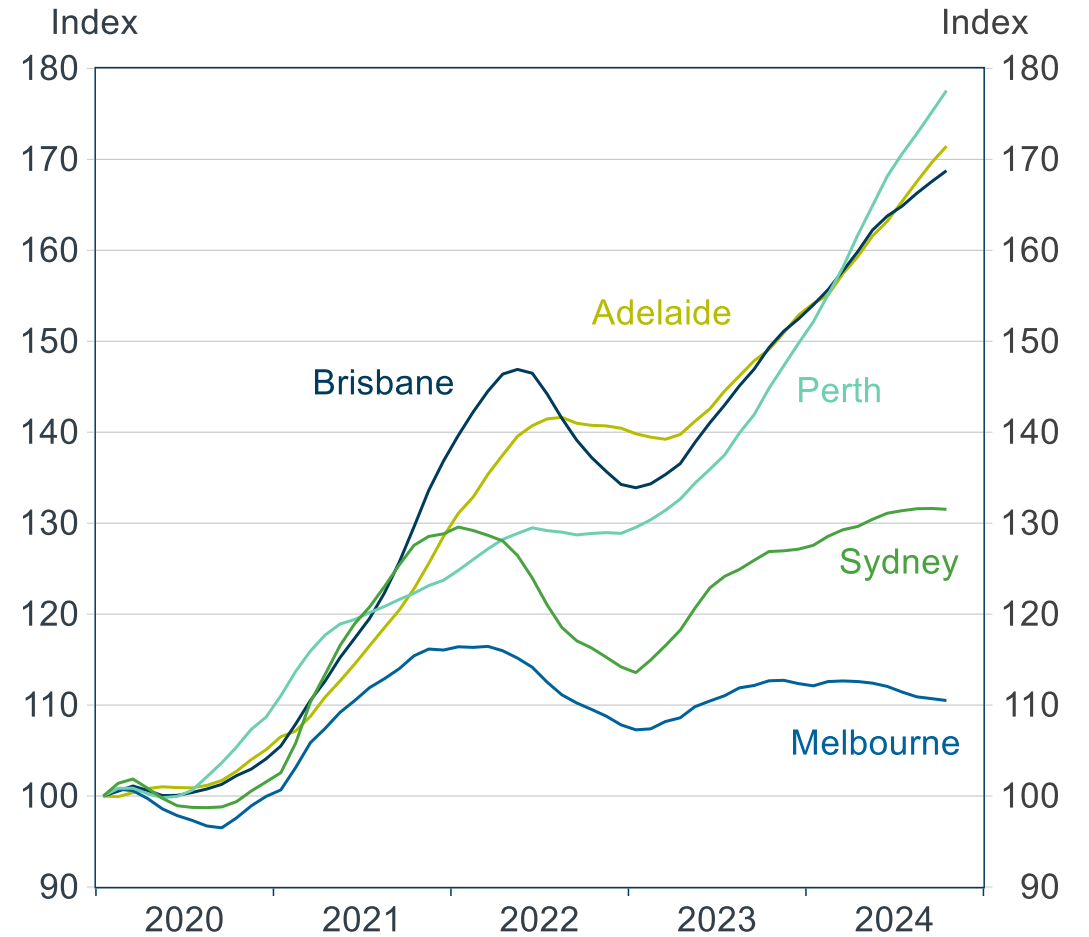
Financial conditions aren't holding back housing ...

Housing lending



Sources: Challenger, Macrobond, RBA, ABS

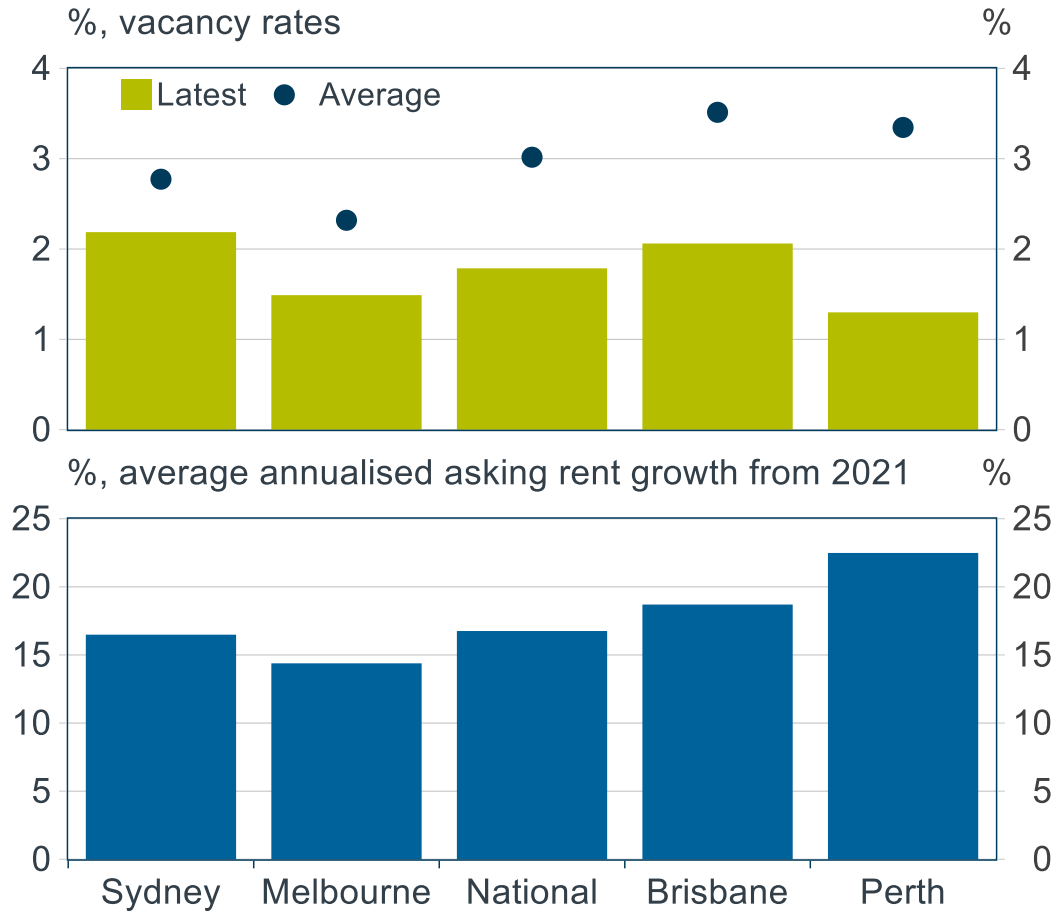
Housing prices



Sources: Challenger, Macrobond, CoreLogic

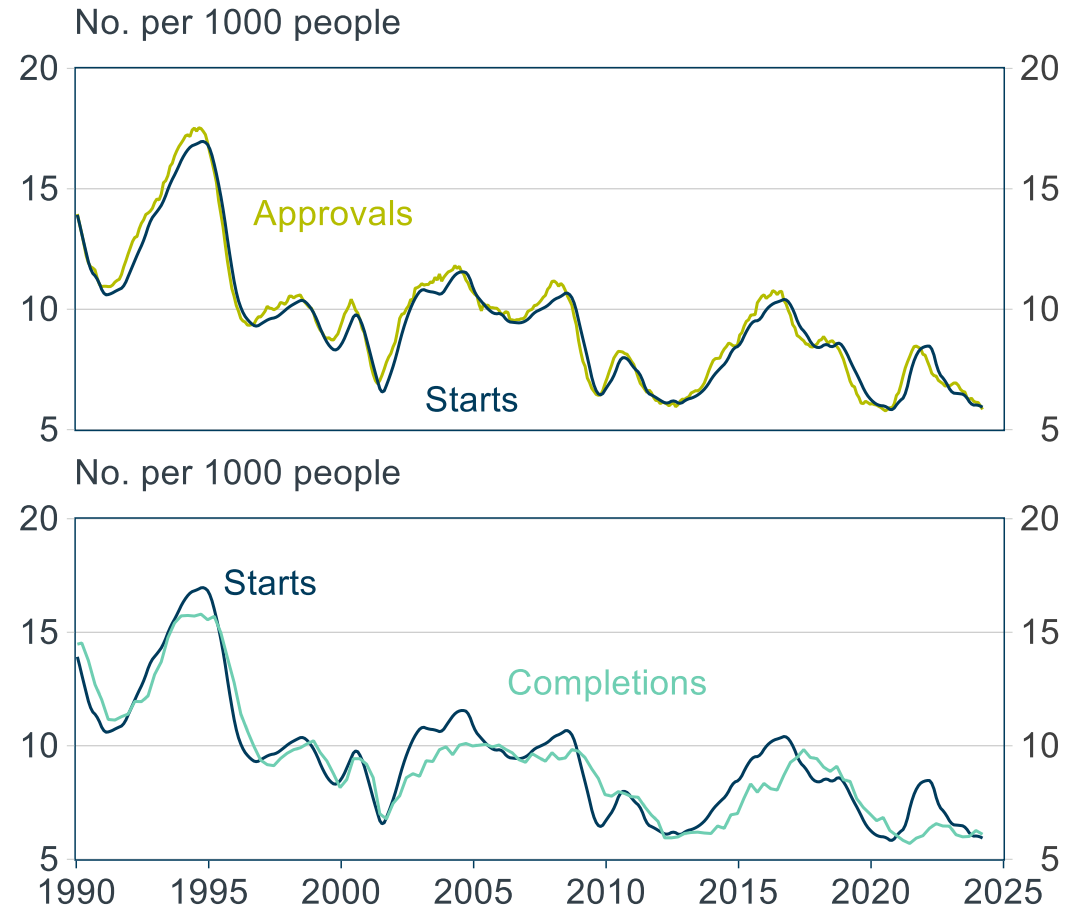
Housing markets are tight and won't getting better soon ...

Residential vacancy rates and rental growth



Note: 3 month average of seasonally adjusted vacancy rate; average vacancy from 2008
Sources: Challenger, Macrobond, CoreLogic

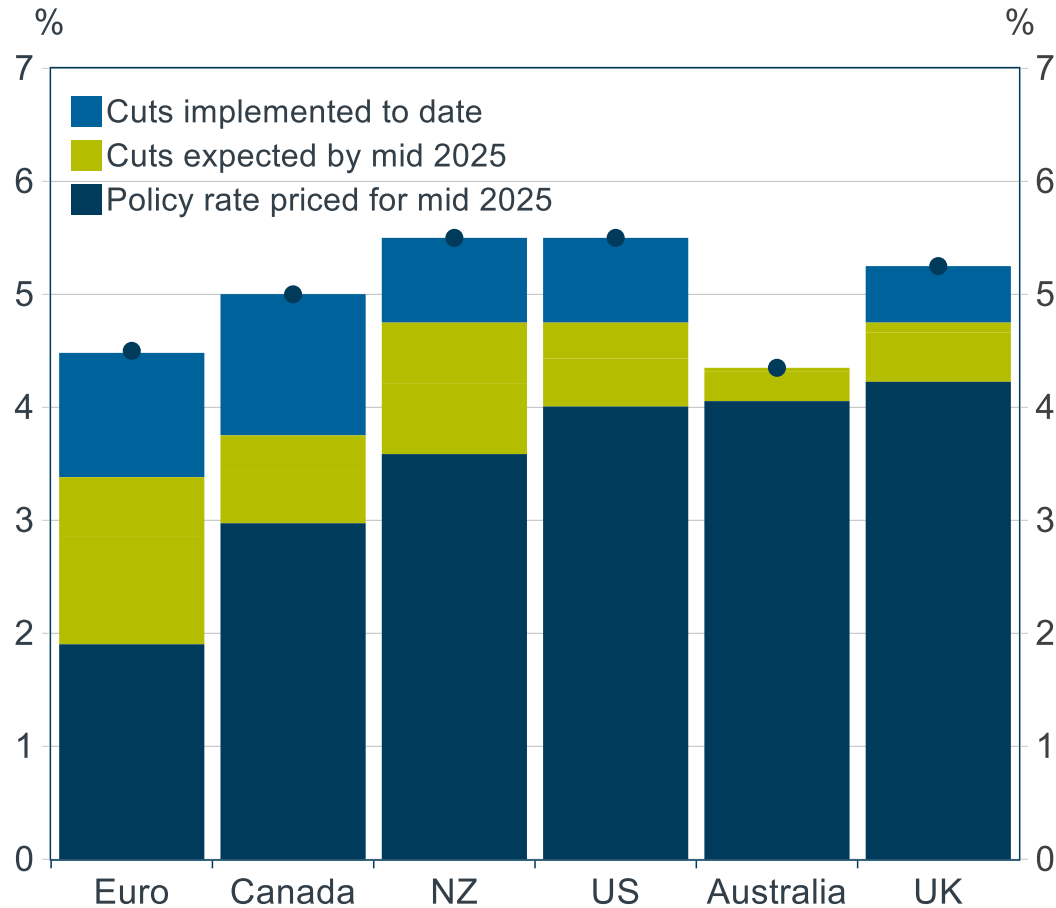
Queensland approvals, starts and completions



Note: Annual rolling sums per 1000 people of the Queensland population
Sources: Challenger, Macrobond, ABS

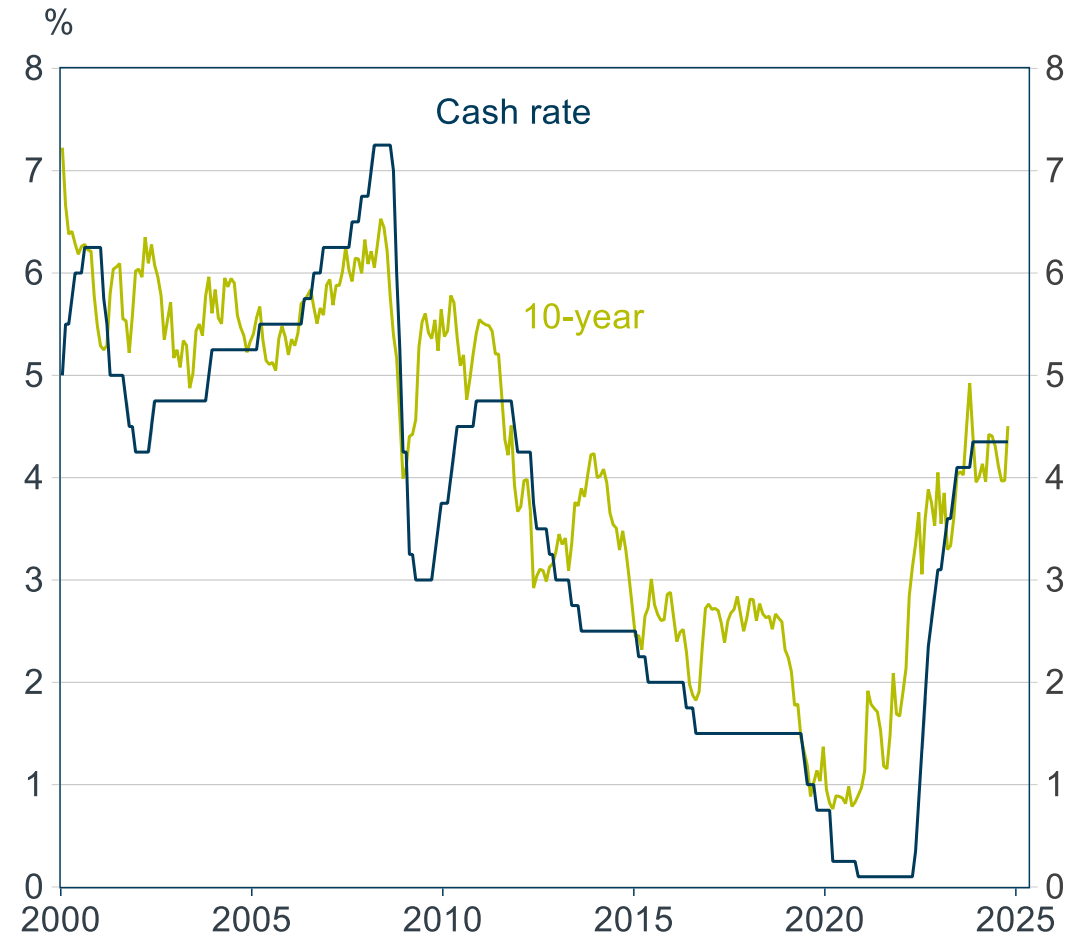
So, the easing in Australia will be slower than elsewhere ...

Policy rates: implemented and expected cuts



Note: mid 2025 is the policy rate at end June 2025 (i.e. after the policy meeting in May or June)
Sources: Challenger, Macrobond, Bloomberg

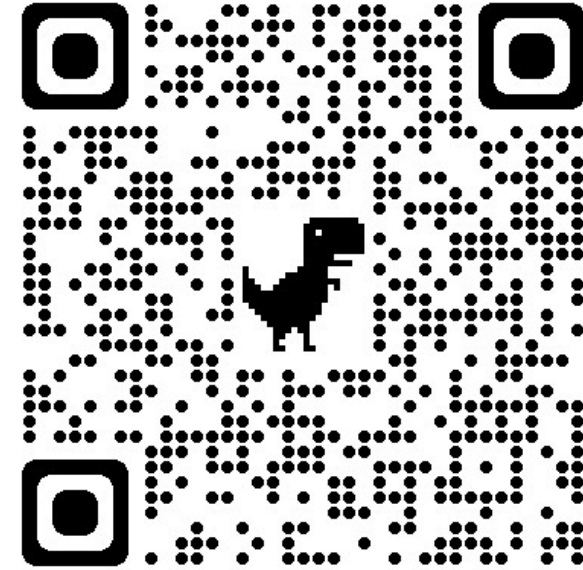
Australian interest rates



Sources: Challenger, Macrobond, RBA



Dr Jonathan Kearns
Chief Economist



Follow Jonathan on LinkedIn at [jk-econ](#)

- Jonathan Kearns is Chief Economist and Head of Regulatory Affairs at Challenger, where he also sits on the investment committee.
- He worked for 28 years at the Reserve Bank of Australia, occupying a wide range of senior roles, including Department Head for Domestic Markets Department, Financial Stability Department, Economic Analysis Department and Economic Research Department. He also led the Bank's work on climate change across four departments.
- Jonathan also worked at the Bank of International Settlements in Basel. He has published research in the fields of international finance and macroeconomics. He has a Ph.D. from Massachusetts Institute of Technology and Bachelor of Economics (Honours) from the Australian National University.

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